

DOCUMENT RESUME

ED 270 540

UD 024 945

TITLE School Meal Programs. Options for Improving the Verification of Student Eligibility. Briefing Report to the Honorable William F. Goodling, House of Representatives.

INSTITUTION General Accounting Office, Washington, D.C.

REPORT NO GAO/RCED-86-122BR

PUB DATE Mar 86

NOTE 83p.

PUB TYPE Reports - Descriptive (141)

EDRS PRICE MF01/PC04 Plus Postage.

DESCRIPTORS *Ancillary School Services; Compliance (Legal); Elementary Secondary Education; *Eligibility; *Federal Programs; *Food; Poverty Programs; Program Improvement

IDENTIFIERS *School Lunch Program

ABSTRACT

This report examines the effectiveness and results of the federally prescribed procedures and processes that school food authorities use to verify student eligibility for free and reduced-price meals under the School Lunch and School Breakfast Programs. While school districts surveyed were found, on the whole, to comply with Federal regulations, a high rate of application errors was found. Regulations do not require districts to expand their verification efforts despite high error rates and thus many students receiving inappropriate benefits are not being detected. This report analyzes the data and provides suggestions for improving effectiveness of verification and eligibility processes. (CG)

 * Reproductions supplied by EDRS are the best that can be made *
 * from the original document. *



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

March 17, 1986

B-222207

The Honorable William F. Goodling
House of Representatives

Dear Mr. Goodling:

As requested in your June 10, 1985, letter and in subsequent discussions with your office, this briefing report examines the effectiveness and results of the federally prescribed procedures and process that school food authorities use to verify student eligibility for free and reduced-price meals under the School Lunch and School Breakfast Programs. The school districts we reviewed generally complied with USDA regulations (which require verification of about 3 percent of the applications), but found a high rate of application errors. Because USDA does not require the school districts to expand their verification efforts when high error rates are found, many students receiving inappropriate benefits are not being detected. This report identifies potential options to improve the effectiveness of the verification and eligibility determination processes.

In fiscal year 1985, the programs provided lunches to about 23.6 million school children and breakfasts to about 3.4 million school children at a total federal cost of about \$3.4 billion. USDA's Food and Nutrition Service administers both programs. All students in participating schools, regardless of family income, are entitled to purchase full-price lunches and breakfasts. Children from households whose incomes are at or below specified levels are eligible for free or reduced-price meals. Eligibility for free or reduced-price meals is generally based on an applicant's declaration of household income or participation in the Food Stamp Program.

In an effort to strengthen school meal program integrity, USDA regulations require school districts each year to verify the eligibility determinations for a sample of applications approved as of October 31. Households whose applications are selected for verification are required to submit documentation supporting their declared income or proof of their participation in the Food Stamp Program. Schools are required to change the eligibility status of

all students who fail to provide documents which substantiate their eligibility status. The changes, which are generally made about halfway through the school year, are not retroactive.

During the 1984-85 school year, the 24 school districts we reviewed generally adhered to the verification regulations and procedures by verifying the required number of applications, fulfilling the documentation requirements, and making accurate verification determinations. In the districts we reviewed, which were located in six different states, school officials changed the eligibility status of students on about one-fourth to one-half of the applications verified (depending on the sampling method used). These changes generally were made because the applicants provided documentation which substantiated a different income level than originally declared or failed to submit documentation to substantiate their eligibility.

Although school districts were generally conducting the verifications properly, the verification process did not detect and correct many potential errors because about 97 percent of all applications were not subject to verification. USDA regulations require verification for the lesser of 3 percent or 3,000 of a district's applications for free and reduced-price meals (or fewer under certain circumstances). Service officials told us they require this small a sample size because, like the Internal Revenue Service, they rely on a deterrent effect to discourage applicants from underreporting their income. The districts we reviewed generally stayed within or only slightly exceeded the verification sampling criteria.

For those applications that were selected for verification, school districts found a high program error rate. For example, in eight of the districts¹ that randomly verified applications, our results showed a 29 percent application error rate. Of the 29 percent, 9.6 percent represented applications from students who provided documents showing that they were ineligible (4.0 percent), eligible but for a reduced benefit (4.8 percent), or eligible but for an increased benefit (0.8 percent). The remaining 19.4 percent represented applications from students who did not submit required documentation to substantiate their

¹As previously noted, we reviewed the verification procedures used by 24 school districts. As allowed by USDA regulations, 10 districts chose to focus their verification efforts on those applications most likely to contain errors. Five districts committed minor procedural errors when taking their random samples. One district did not retain its verification records. Therefore, the following analysis is limited to the remaining eight school districts that had validly selected random samples and whose error data we were able to validate.

eligibility. The percentage of these nonrespondents actually in error is unknown, but USDA regulations require termination of benefits to any student who does not respond to a school's request for documentation. To illustrate the cost implications of benefit errors in these eight districts, we project that, based on only the 9.6 percent application error rate, these districts provided students with more than \$1.4 million of benefits to which they were not entitled, while about \$75,000 in benefits were not provided to students eligible for higher benefits.

These eight school districts do not constitute a statistically valid sample of all school districts; therefore, we cannot provide a statistical nationwide projection of the cost of providing benefits to students who were not eligible for the benefits they received or whose eligibility was not substantiated. However, by assuming that the school districts we reviewed are typical of all school districts and that the error rates we identified are characteristic of the problem nationwide, the data from the eight districts offer an indication of the national number of students who received free or reduced-price lunches they were not entitled to, as well as the number of students who did not receive the free lunches they qualified for--and the dollar implications of this problem.

On the basis of the 9.6 percent documented error rate, schools nationwide may have served about 170 million free and reduced-price school lunches during the 1984-85 school year to about 1 million students who were not entitled to these benefits. In addition, schools nationwide may have charged 90,000 students reduced prices for about 15 million lunches that should have been provided free. If so, the net cost to the federal government of these errors could have been about \$107 million (about 4 percent of total program costs). If the 19.4 percent who did not submit required documentation were included and if none of these nonrespondents were eligible for free or reduced-price lunches, the net impact could be much higher--\$500 million (about 17 percent of total program costs). However, this \$500 million figure would be an upper bound because the results of our review indicate that some of these nonrespondents may have been eligible for the benefits they were receiving. (See sec. 2 and app. IV for a detailed discussion of the assumptions and limitations for these numbers.) Although our analysis is limited to the School Lunch Program, a similar situation, although of a significantly lesser dollar impact, could exist in the School Breakfast Program because both programs have the same income eligibility criteria, documentation requirements, and verification procedures.

We identified four options that could provide greater assurance that students are receiving the level of school meal program benefits they are entitled to. Each option has trade-offs to the federal government, schools, and applicants. For example, requiring applicants to document their eligibility for school meal

benefits would reduce the number of students receiving meals they are not entitled to. However, it could also pose a barrier to some potential applicants because they may not be able or willing to provide the documents needed to prove their eligibility.

One option would be to require all applicants to provide income documentation with the original application. (Currently, such documentation is generally required only when an application is selected for verification.) A second option would be to require income documentation only from applicants who are not simultaneously participating in the Food Stamp Program. (Such applicants accounted for about 90 percent of the errors in the districts we reviewed.) The third option would be to expand the current verification process at school districts with error rates in excess of a target amount. The fourth option would be to strengthen the current verification process by using wage matching (a technique which compares participant-reported earnings with information from independent sources) to identify applicants who may be underreporting income and requesting documentation from these applicants. To different degrees, all four options would reduce participation by ineligible students, thereby allowing the federal government to realize benefit savings; however, the options could increase schools' administrative costs, place an administrative burden on some applicants, or present a barrier to potential applicants. Each of these trade-offs should be considered and/or studied in determining an option's appropriateness for the program.

The attached sections and appendixes contain tables, figures, and narratives which address in greater detail the matters we discuss in this letter. We coordinated our procedures for calculating the indication of national impact with analysts from the Congressional Budget Office and the Food and Nutrition Service and received advice on the proper caveats and limitations needed to qualify our calculations. Officials from both agencies reviewed and agreed on the methodology we used to make the resultant calculations.

In providing comments on the draft report, Service program officials generally agreed that the information in the report is factually correct. However, they believe the report does not give the Service sufficient credit for the progress it has made over the past several years. The Service officials stressed that the goal of verification is to reduce participation by ineligible students, and said that the documented error rate of 9.6 percent would indicate that the Service has made progress in this area. They also said that the ultimate measure of progress hinges on what proportion of nonrespondents are ineligible for the benefits they are receiving and since this is unknown, no precise estimate of the overall error rate can be made. Furthermore, the Service officials said that they believe the \$500 million cost to the federal government represents the maximum possible error

cost. They believe, and we agree, that it is unlikely that the actual costs could be this high because this figure is based on the assumption that all nonrespondents were entitled only to full-price lunches. In addition, the Service officials suggested several technical and minor changes that we have made in the final report.

As arranged, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days after its issue date. At that time, we will send copies to the Chairman, Senate Committee on Agriculture, Nutrition, and Forestry; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties. We also will make copies available to others on request. If you have additional questions or if we can be of further assistance on this issue, please contact me on (202) 275-5138.

Sincerely yours,



Brian P. Crowley
Senior Associate Director

C o n t e n t s

SECTION		<u>Page</u>
1	BACKGROUND ON THE SCHOOL MEAL PROGRAMS, AND OBJECTIVES, SCOPE, AND METHODOLOGY OF OUR REVIEW	11
	Past problems identified in determining school meal program eligibility	13
	Objectives of our review	15
	School meal program background	17
	Meal program student eligibility requirements	17
	Department of Agriculture reimburses schools	19
	Enhancing program integrity	21
	Meal program application regulations	23
	Meal program verification regulations	25
	Scope and methodology of our review	27
2	HIGH ERROR RATES EXIST	31
	Random sample verification results show eligibility changes to nearly one of three applications	33
	Focused sample verification results show eligibility changes to one of two applications	35
	Most errors caused by applicants' failure to substantiate declared income	37
	Breakdown of error rates by applicants providing documentation and those not responding	39
	Wage match results of nonrespondents	41

	<u>Page</u>
Potential \$107 million spent providing school lunches that students may not have been entitled to	43
3 SCHOOL DISTRICTS GENERALLY COMPLIED WITH VERIFICATION REQUIREMENTS, BUT ONLY SMALL NUMBER OF INELIGIBLE STUDENTS WERE IDENTIFIED	45
School districts generally conducted verifications properly	47
Random sample verifications identified less than 3 percent of projected errors	51
Additional techniques used to ensure participant eligibility	55
4 OPTIONS THAT COULD REDUCE ERRONEOUS PARTICIPATION IN THE SCHOOL MEAL PROGRAMS	57
Options that could reduce erroneous participation	59
Factors to consider in assessing documentation and verification options	61
Option 1: Require documentation with food stamp and non-food-stamp applications	65
Option 2: Require income documentation with non-food-stamp applications only	69
Option 3: Expand eligibility verification efforts at school districts with high error rates	71
Option 4: Strengthen eligibility verification procedures by using wage matching	75
APPENDIXES	
Appendix I: Request letter from the Honorable William F. Goodling, House of Representatives, dated June 10, 1985	77
Appendix II: States, Food and Nutrition Service regions, and school districts selected for review	79

	<u>Page</u>
Appendix III: School districts using additional techniques to ensure applicants' eligibility	80
Appendix IV: Methodology for calculating indication of School Lunch Program dollars issued in error nationwide during the 1984-85 school year	81
Appendix V: Number of sample applications required and verified, by school district	86
Appendix VI: School district verification results and GAO's validation	87

ILLUSTRATIONS

FIGURES

Figure 1.1: School meals served and federal cost (fiscal year 1985)	18
Figure 2.1: Random sample verification results in eight school districts reviewed by GAO--average error rate	32
Figure 2.2: Random sample verification results in eight school districts reviewed by GAO--error rate by district	32
Figure 2.3: Focused sample verification results in eight school districts reviewed by GAO--average error rate	34
Figure 2.4: Focused sample verification results in eight school districts reviewed by GAO--error rate by district	34
Figure 2.5: Most errors caused by applicants' failure to substantiate declared income	36
Figure 2.6: Breakdown of error rates by applicants providing documentation and those not responding	38
Figure 2.7: Wage match results of non-respondents	40

	<u>Page</u>
Figure 2.8: Indications of eligibility problems nationwide in the School Lunch Program	42
Figure 3.1: Verifications identified less than 3 percent of projected errors at eight school districts using random sampling	50

TABLES

Table 1.1: Federal reimbursement rates for school meals, July 1, 1984 - June 30, 1985	19
Table 1.2: Number of meals served and total USDA reimbursements to schools, fiscal year 1985	19
Table 3.1: Comparison of error rates determined by school districts and validated by GAO	48

ABBREVIATIONS

CED	Community and Economic Development Division (GAO)
GAO	General Accounting Office
HRD	Human Resources Division (GAO)
OIG	Office of Inspector General
RCED	Resources, Community, and Economic Development Division (GAO)
USDA	U.S. Department of Agriculture

SECTION 1

BACKGROUND ON THE SCHOOL MEAL PROGRAMS AND OBJECTIVES, SCOPE, AND METHODOLOGY OF OUR REVIEW

Because a significant number of applicants for free or reduced-price meals were providing inaccurate information on their application forms, the Congress in 1981 required documentation and verification of eligibility. In fiscal year 1985, the School Lunch and School Breakfast Programs provided over 4 billion meals to about 24 million students at a cost to the federal government of \$3.4 billion. At the request of Congressman William F. Goodling, we conducted a review to determine whether, in providing these meals, the programs were still experiencing the eligibility problems that spurred congressional action in 1981. As part of our review, we (1) validated the error rates of 24 school districts in six states, (2) visited eight school districts that had developed innovative procedures for documenting eligibility for school meal benefits, and (3) analyzed alternatives to the documentation and verification procedures currently used for the school meal programs.

**PAST PROBLEMS IDENTIFIED IN DETERMINING
SCHOOL MEAL PROGRAM ELIGIBILITY**

- o A 1981 Department of Agriculture (USDA) Inspector General's report on eligibility in the 1979-80 school year said that
 - 27.5 percent of applicants were not eligible
 - \$187.6 million in benefits were provided inappropriately
- o Report recommended that USDA establish requirements to
 - verify reported income
 - clarify methods for determining household income, household size, and other factors affecting eligibility
 - require school food authorities to use standardized application form

PAST PROBLEMS IDENTIFIED IN DETERMINING
SCHOOL MEAL PROGRAM ELIGIBILITY

In 1981, USDA's Office of Inspector General (OIG) reported¹ that significant numbers of applicants for the School Lunch and Breakfast Programs (school meal programs) were providing inaccurate information on their application forms. The OIG found that 27.5 percent of the applicants were not eligible for approved benefits and estimated that the federal government provided \$187.6 million in inappropriate benefits in the 1979-80 school year. The erroneous participation was attributed primarily to applicants inaccurately declaring household income.

On the basis of those findings, the OIG recommended that USDA pursue establishing a requirement to verify income reported on applications; clarify methods for determining household income, household size, and allowable deductions (if standard deductions were not mandated); and require school food authorities to use a standard statewide or nationwide application form that includes all adult household members, social security numbers, and sources of income.

In March 1981, at the request of the House Committee on Education and Labor, we analyzed the OIG report and supporting workpapers. Our report² stated that the OIG had uncovered serious problems and had made reasonable recommendations to address the problems. Responding to the concerns raised by these reports, the Congress included in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, Aug. 13, 1981) provisions that required school meal program applicants to document eligibility for benefits and school food authorities to verify the accuracy of data supplied by applicants.

¹Nationwide Statistical Sample of Program Participation for May 1980 and Verification of Free and Reduced Price Application Information (27801-1-HY, Feb. 27, 1981).

²Analysis of a Department of Agriculture Report on Fraud and Abuse in Child Nutrition Programs (CED-81-81, Mar. 9, 1981).

OBJECTIVES OF OUR REVIEW

- o In response to a congressional request, we**
 - examined the impact that the documentation and verification requirements in the 1981 Omnibus Budget Reconciliation Act had on school meal program error rates in the 1984-85 school year**
 - evaluated procedures that school food authorities used to document and verify applicants' eligibility for school meal benefits**
 - identified alternatives to the current documentation and verification procedures**

OBJECTIVES OF OUR REVIEW

In a letter dated June 10, 1985, Congressman William F. Goodling expressed interest in our ongoing study of eligibility documentation and verification requirements and procedures in the School Lunch and School Breakfast Programs. (See app. I.) The Congressman specifically requested that we evaluate the impact that the documentation and verification requirements of the Omnibus Budget Reconciliation Act of 1981 had on determining applicant eligibility. Specific review objectives included (1) validating school meal program error rates at various locations and using this information to develop an indication of the national impact of these error rates, (2) determining whether USDA established appropriate regulatory requirements that embody the congressional intent that applicants document and verify eligibility for school meal benefits, (3) evaluating the effectiveness of schools' implementation of school meal eligibility documentation and verification requirements, and (4) identifying potential approaches to improve the effectiveness of the eligibility documentation and verification procedures.

SCHOOL MEAL PROGRAM BACKGROUND

- o **Authorized by:**
 - National School Lunch Act of 1946
 - Child Nutrition Act of 1966
- o **Participation data for 1985:**
 - lunches for 23.6 million children
 - breakfasts for 3.4 million children
- o **Total federal cost for 1985:**
 - \$3.4 billion

MEAL PROGRAM STUDENT ELIGIBILITY REQUIREMENTS

- o **All students are entitled to purchase full-price lunches and breakfasts**
- o **Students from households whose income is not greater than 130 percent of poverty guidelines qualify for free meals**
- o **Students from households whose income is between 130 percent and 185 percent of guidelines qualify for reduced-price meals**

SCHOOL MEAL
PROGRAM BACKGROUND

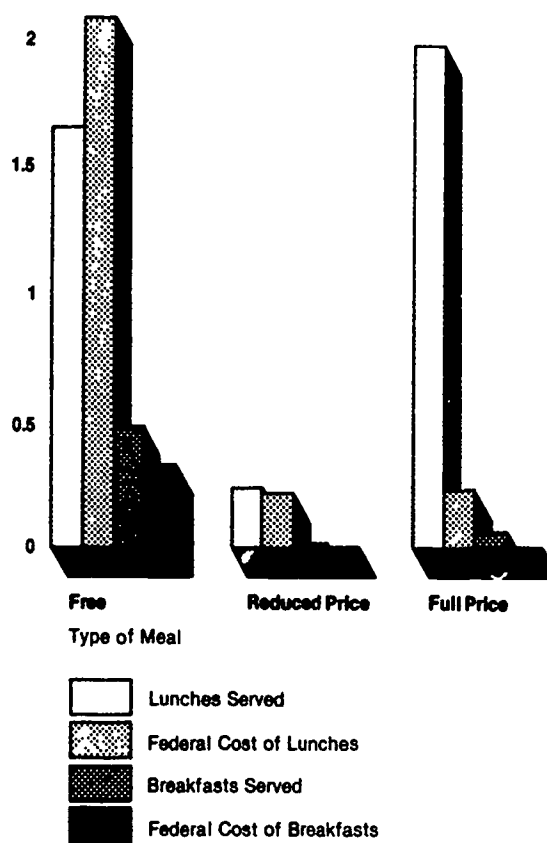
The National School Lunch Act of 1946 and the Child Nutrition Act of 1966 authorized the School Lunch and School Breakfast Programs, respectively. The programs provide federal assistance to help states pay for nutritious lunches and breakfasts for children in participating public and private schools. In fiscal year 1985, the programs provided lunches to about 23.6 million school children and breakfasts to about 3.4 million children at a total federal cost of about \$3.4 billion. USDA's Food and Nutrition Service administers both programs.

MEAL PROGRAM STUDENT
ELIGIBILITY REQUIREMENTS

For a student to qualify for a free or reduced-price meal, an adult member of the household must submit an application to the local school food authority, which then determines eligibility for program benefits. Applicants need only to declare household income for each individual; they do not have to provide supporting documentation at the time of application. All students in participating schools, regardless of household income, are entitled to purchase full-price lunches and breakfasts. Children from households whose income is not greater than 130 percent of the Office of Management and Budget poverty guidelines qualify for free meals, and children from households whose income is between 130 percent and 185 percent of those guidelines qualify for reduced-price meals. For example, in school year 1984-85, children from four-person households with annual income not exceeding \$13,260 qualified for free lunches and children from four-person households with annual income from \$13,261 through \$18,870 qualified for reduced-price meals. Children from households receiving food stamps are automatically eligible to receive free school meals. School meal participants are required to report any changes in circumstances that could affect their eligibility for benefits.

Figure 1.1 School Meals Served and Federal Cost (Fiscal Year 1985)

2.5 Meals and Dollars (billions)



DEPARTMENT OF AGRICULTURE
REIMBURSES SCHOOLS

USDA reimburses participating schools based on the number of full-price, reduced-price, and free meals served. USDA provides a basic cash subsidy for every meal served but provides additional reimbursements for those meals served free or at a reduced price. USDA reimbursed schools with the following amounts for meals provided to students during the 1984-85 school year.

Table 1.1: Federal Reimbursement Rates
for School Meals,
July 1, 1984 - June 30, 1985

<u>Reimbursement</u> <u>category</u>	<u>Lunch^a</u>	<u>Breakfast</u>
Free	\$1.255	\$0.734
Reduced price	0.855	0.407
Full price	0.120	0.095

^aIn addition, USDA provides school districts with commodities valued at 12 cents for each lunch served. School districts serving at least 60 percent of their meals free or at reduced prices also qualify for enhanced funding reimbursements.

Table 1.2: Number of Meals Served and Total USDA
Reimbursements to Schools, Fiscal Year 1985

<u>Reimbursement</u> <u>category</u>	<u>Lunch</u>		<u>Breakfast</u>	
	<u>Number</u> <u>served</u>	<u>Reimbursed</u> <u>by USDA^a</u>	<u>Number</u> <u>served</u>	<u>Reimbursed</u> <u>by USDA</u>
----- (millions) -----				
Free	1,657	\$2,278	500	\$367
Reduced price	254	248	27	11
Full price	1,978	475	68	7
Total ^b	<u>3,889</u>	<u>\$3,001</u>	<u>595</u>	<u>\$385</u>

^aReimbursements include 12 cents per meal in commodities.

^bTotal does not include enhanced funding reimbursements.

ENHANCING PROGRAM INTEGRITY

- o The Omnibus Budget Reconciliation Act of 1981 included provisions to enhance the integrity of the School Lunch Program that required**
 - documentation of income**
 - simplification of eligibility**
 - elimination of requirement that income deductions be considered in determining eligibility**
 - limited school district verification of School Lunch Program applications**

ENHANCING PROGRAM INTEGRITY

The Congress passed the Omnibus Budget Reconciliation Act of 1981 that included provisions to enhance the integrity of the School Lunch Program.³ Specifically, the act

- required appropriate documentation of income and gave the Secretary of Agriculture the authority to establish the specific procedures for doing so and
- simplified eligibility determinations by authorizing the automatic approval of free meals for households receiving food stamps and by eliminating requirements that income deductions be considered in determining eligibility.

Other provisions in the act required that (1) applicants furnish social security numbers of all adult household members as a condition of eligibility for free and reduced-price meals, (2) school districts furnish applicants with information on only the income levels necessary to qualify for reduced-price meals, and (3) school food authorities verify information contained in applications, as prescribed by the Secretary. Also, the act stated that no member of a household may be provided a free or reduced-price lunch unless the appropriate school food authority has been provided with (1) appropriate documentation, as prescribed by the Secretary, of the household's income or (2) documentation showing the household is participating in the Food Stamp Program. The act also required the Secretary to conduct a pilot study to verify the data submitted on a sample of applications for free and reduced-price meals to determine appropriate forms of income documentation.

³USDA regulations extended the act's documentation and verification requirements to the School Breakfast Program as well.

MEAL PROGRAM APPLICATION REGULATIONS

- o **1984 USDA regulations on application requirements include**
 - permitting food stamp recipients to provide a food stamp case number in lieu of income information to be eligible for free school meals
 - requiring applicants to furnish social security numbers and identify income by source
 - providing warning to applicants about the consequences of making inaccurate declarations
 - requiring no documentation other than the application information to determine eligibility for school meal program benefits

MEAL PROGRAM APPLICATION REGULATIONS

On the basis of the pilot study results, USDA issued final program regulations effective on July 26, 1984. The regulations include all the requirements specified by the 1981 Omnibus Act for the application process, such as requiring social security numbers for all adult household members. They also specify that (1) income for each household member be identified by source (such as wages, pensions, welfare, support payment, unemployment compensation, and other income) and (2) the application contain warnings that the data are subject to verification and deliberate misrepresentation may subject the applicant to prosecution.

Regarding the act's requirement that appropriate documentation of income or food stamp participation be required as a condition for eligibility, the regulations define documentation as a signed application containing all household members' names, social security numbers for adults, and either a food stamp case number or household income identified by source. The eligibility determination process relies on the applicants' declarations rather than documentation originating from third parties (such as employer-provided wage statements) to prove eligibility.

**MEAL PROGRAM
VERIFICATION REGULATIONS**

**o USDA regulations on school district verification
require**

-random sample of the lesser of 3 percent of
approved applications or 3,000

OR

-focused sample of

1 percent or 1,000 of the total approved
applications selected from those within
\$100 of monthly income eligibility limits
and

one-half of 1 percent or 500 applications
selected from those receiving food stamps

MEAL PROGRAM VERIFICATION REGULATIONS

USDA regulations require each participating school district to verify the information provided by some of the approved applications for free or reduced-price meals. Those to be verified can be chosen at random, or can be chosen from applications that the Food and Nutrition Service's pilot study showed to be more likely to contain errors. Focused sampling involves selecting non-food-stamp households claiming monthly income within \$100, or yearly income within \$1,200, of the income eligibility limit for free or reduced-price meals. If random sampling is used, 3 percent or 3,000 applications (whichever is less) must be verified. If focused sampling is used, the school district must verify a sample that is at least equal to the lesser of 1,000 or 1 percent of the total approved applications. In addition, school districts using focused sampling must verify a sample of food stamp applications equal to the lesser of 500 or one-half of 1 percent of the total applications from households receiving food stamps.

Verification consists of

- selecting a sample of applications from the approved applications on file as of October 31,
- providing the selected households with written notice that their applications have been selected for verification and that they are required to submit the requested income information or proof of food stamp participation within a specified period of time,
- comparing documentation provided by the household to information on the application and determining if the school food authorities' original eligibility determination is correct, and
- notifying the households of any changes in eligibility status.

SCOPE AND METHODOLOGY OF OUR REVIEW

- o We conducted our review at 24 school districts in 6 states and 6 Food and Nutrition Services regions where we**
 - validated the school districts' error rates by examining a sample of about 2,900 applications**
 - used the error rate information at certain of these locations to develop an indication of the extent of school meal program eligibility errors nationwide**
 - assessed USDA's and the school districts' school meal eligibility documentation and verification procedures by interviewing school district, state, and Service officials and reviewing relevant documents**
 - together with information obtained at additional school districts and from Service-contractor reports, identified options that could be used to improve the current verification process**
- o We also visited school districts identified as using innovative procedures to document and verify applicants' eligibility for benefits**

SCOPE AND METHODOLOGY OF OUR REVIEW

We collected information from 18 large and 6 small school districts in 6 states--California, Florida, New York, Ohio, Texas, and Virginia. The states were selected because they had both a large student population and at least 3 school districts among the largest 120 in the nation. Also, each of the states was in a different Food and Nutrition Service region. We visited the three largest school districts and one smaller district in each of the selected states. Our review efforts concentrated on the larger districts because (1) this provided the most coverage of program participation and (2) the large school districts are generally the most adversely affected by any increased program requirements. To determine if small school districts experienced problems similar to those of the larger districts, one small district was selected in each of the six states. The 24 school districts we reviewed accounted for about 7.7 percent of the total student population nationwide in school year 1984-85.

In the 24 school districts, we randomly selected and examined a statistical subsample of about 2,900 of the 18,000 cases that the school districts had verified for the 1984-85 school year. Using the documentation that the schools had obtained for these cases, we determined the accuracy of the schools' verification determinations and validated their error rates. We also reviewed the sample cases to determine whether the verifications were conducted according to USDA guidelines and whether USDA-established procedures effectively identified cases where households had improperly received school meal benefits. We discussed the results of our case reviews with school district officials.

To assess the effectiveness of the documentation and verification procedures, we obtained information from and interviewed officials at the selected Service regional offices, state agencies, and school districts about their activities and responsibilities in regard to documentation and verification. (See app. II for a list of the school districts, states, and Service regional offices.) We also reviewed the legislative history to examine the congressional intent behind the documentation and verification provisions in the 1981 Omnibus Act, and analyzed USDA regulations to determine whether they complied with the intent of those provisions. We also reviewed the findings of the pilot study (Income Verification Pilot Projects) required by the 1981 Omnibus Act and the use of those findings in selecting the current methods of documentation and verification.

Of the 24 school districts, 14 had used random sampling and 10 had used focused sampling to verify applicants' eligibility

to receive reduced-price or free school meals. Our analysis of the verification results in the 14 random sampling districts is limited to 8 of these districts because of problems we encountered with the case samples of the remaining 6 districts. (Four districts did not take statistically valid samples from which we could project results; a fifth did not retain the documentation obtained during the verification process; and a sixth did not maintain the district-wide participation records we needed to validate the error rate it reported.)

For focused sampling, which emphasizes verifying the eligibility of applicants considered to be in an error-prone group, our analysis of the verification results is limited to 8 of the 10 districts. (One district had to be excluded because it had not retained the documentation obtained during the verification, and we therefore were unable to validate its results; the second was excluded because it required documentation with the applications in the 1983-84 school year which had an effect on applications and error rates for the 1984-85 school year.)

To examine possible reasons why some applicants did not respond to school requests that they document their eligibility for benefits, we conducted a wage match of nonrespondents at seven of the school districts we reviewed in New York and Texas. In addition, we obtained wage match data that USDA's Inspector General had developed for Dade County, Florida. In New York and Texas, we submitted the names, social security numbers, and reported income of selected applicants to the appropriate state agency that had access to wage data. To determine whether these nonrespondents may have accurately reported their income on their original applications, the state agency wage data were compared with the income reported on the applications for meal benefits.

Using error rate data that we validated at the eight school districts using random sampling and national School Lunch Program participation data maintained by the Food and Nutrition Service, we developed an indicator of the extent of improper participation nationwide and its dollar implications. Our error rate data were developed by validating 1,063 of the 4,733 applications verified in these eight districts. Because the school districts we reviewed did not constitute a statistically projectable sample of school districts, we made the assumption that the error rate data we validated at these districts were characteristic of school districts nationwide. We coordinated our procedures for making these calculations with analysts from the Congressional Budget Office and the Food and Nutrition Service and received advice on the proper caveats and limitations needed to qualify our calculations. Officials from both agencies reviewed and agreed on the methodology we used to

make the resultant calculations. (For a detailed description of our calculations, methodology, and assumptions, see app. IV.)

To help identify alternative approaches or options for improving eligibility documentation and verification procedures, we conducted a telephone survey of state education agencies to identify school districts that had used innovative techniques to ensure applicants' eligibility. We identified 8 school districts, 1 of which was included in our 24 selected school districts, that used such additional procedures and visited them to determine the methods used, results obtained, difficulties encountered, and costs incurred. We also reviewed reports by USDA's OIG on the school meal programs and reports by Service contractors on studies of school meal eligibility documentation and verification alternatives. We also discussed various alternatives with Service, state, and school district officials. (For a list of the school districts that used additional techniques to ensure applicants' eligibility, see app. III.)

Officials from the Food and Nutrition Service provided comments on the draft report. Service program officials generally agreed that the information in this report is factually correct. However, they believe the report does not give the Service sufficient credit for the progress it has made over the past several years. The Service officials stressed that the goal of verification is to reduce participation by ineligible students, and said that the documented error rate of 9.6 percent would indicate that the Service has made progress in this area. They also said that the ultimate measure of progress hinges on what proportion of nonrespondents are ineligible for the benefits they are receiving and since this is unknown, no precise estimate of the overall error rate can be made. Furthermore, the Service officials said that they believe the \$500 million cost to the federal government represents the maximum possible error cost. They believe, and we agree, that it is unlikely that the actual costs could be this high because this figure is based on the assumption that all nonrespondents were entitled only to full-price lunches. In addition, the Service officials suggested several technical and minor changes that we have made in the final report.

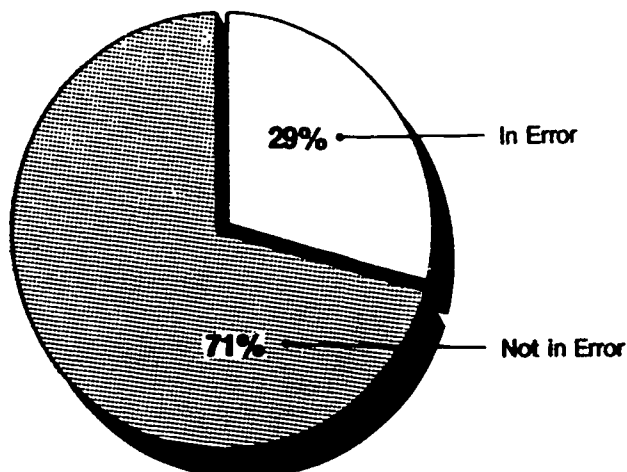
Our review was conducted during the period from January to December 1985 and in accordance with generally accepted government auditing standards.

SECTION 2

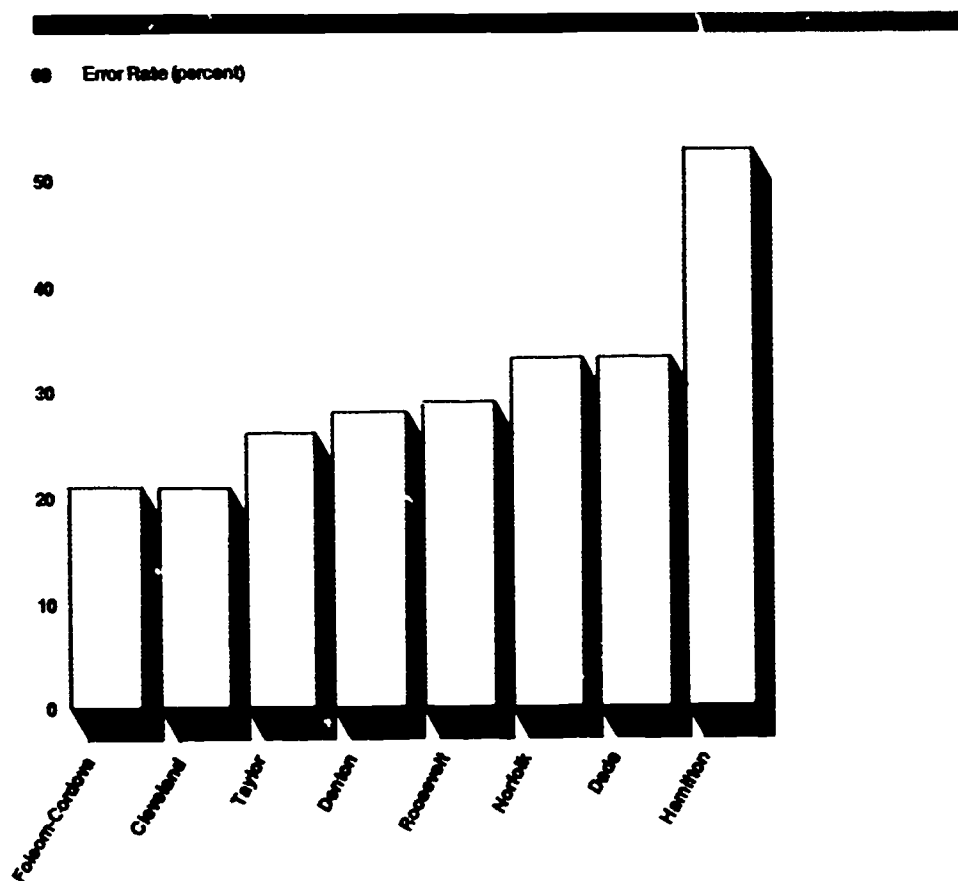
HIGH ERROR RATES EXIST

Our review of 24 school districts concluded that a high application error rate existed in the 1984-85 school year. At eight school districts that used random sampling when verifying applications, our validated results showed an average error rate of at least 9.6 percent (based on documentation provided by applicants) and possibly as high as 29 percent (including those who failed to respond to schools' requests for documentation). At eight other districts that used focused sampling--the verification of information from applications considered to be in error-prone groups--the average application error rate was at least 28 percent (based on documentation) and possibly as high as 55 percent, including nonrespondents. The error rate results from the remaining eight districts are not included in our aggregate results mainly because the districts did not take statistically valid samples. The primary cause for the high error rates was that applicants did not substantiate the income declared on their applications. By using our error rate results from the school districts that used valid random sampling and assuming that the districts are typical of all districts and that the error rates are characteristic of the rates nationwide, we developed an indication of federal funds spent--ranging from \$107 million (based on the 9.6 percent documented error rate) to \$500 million (based on the 29 percent error rate)--to provide free or reduced-price school lunches to students who may not have been entitled to them during the 1984-85 school year.

**FIGURE 2.1: RANDOM SAMPLE VERIFICATION RESULTS
IN EIGHT SCHOOL DISTRICTS REVIEWED BY GAO**
Average Error Rate
(percent)



**FIGURE 2.2: RANDOM SAMPLE VERIFICATION RESULTS
IN EIGHT SCHOOL DISTRICTS REVIEWED BY GAO**
Error Rate By District
(percent)



RANDOM SAMPLE VERIFICATION RESULTS SHOW
ELIGIBILITY CHANGES TO NEARLY ONE
OF THREE APPLICATIONS

High participation error rates existed at the school districts we visited that had taken valid random samples to verify the eligibility of applicants for the 1984-85 school year.¹ The error rates occurred because (1) applicants provided school food authorities with documents that proved their ineligibility or, in a few cases, proved their eligibility for higher benefits or (2) applicants did not provide documentation that would prove their eligibility. Although some applicants in the latter category might have been eligible for benefits if they had provided required documentation, the law prohibits free and reduced-price lunches to applicants who do not provide documentation prescribed by the Secretary. In accordance with the law, USDA regulations require school food authorities to change the eligibility status of participants who do not provide documentation to prove their eligibility at the time of verification.

Our validated verification results showed an average error rate of 29 percent at the eight school districts that had taken valid random samples--with individual school district error rates ranging from 21 to 53 percent. (See figs. 2.1 and 2.2.) This means that school districts should have changed the eligibility status for nearly one of every three applications verified. In 97 percent of these cases, the eligibility changes would have decreased participants' benefits. The actual percentage of applications for which districts had changed the eligibility status--about 27 percent--was somewhat less, however, because of minor problems that we found with the districts' verification procedures. (See sec. 3.)

Verification results are the best available indicator of erroneous participation but are limited because school food authorities do not independently verify eligibility. Instead, they base their determinations on applicant-supplied documents. Because there is no requirement in the school meal programs for school districts to report their verification results, these data are not accumulated nationwide. In addition, no nationwide studies have been made on the extent of erroneous participation in the school meal programs since the procedures were revised to implement the provisions of the Omnibus Budget Reconciliation Act of 1981. In commenting on the draft report, Food and Nutrition Service officials said they are planning to initiate in 1986 a study to examine the effect of current income verification regulations.

¹See app. V for list of school districts that used random sampling and app. VI for those whose samples provided usable results.

FIGURE 2.3: FOCUSED SAMPLE VERIFICATION RESULTS IN EIGHT SCHOOL DISTRICTS REVIEWED BY GAO

Average Error Rate
(percent)

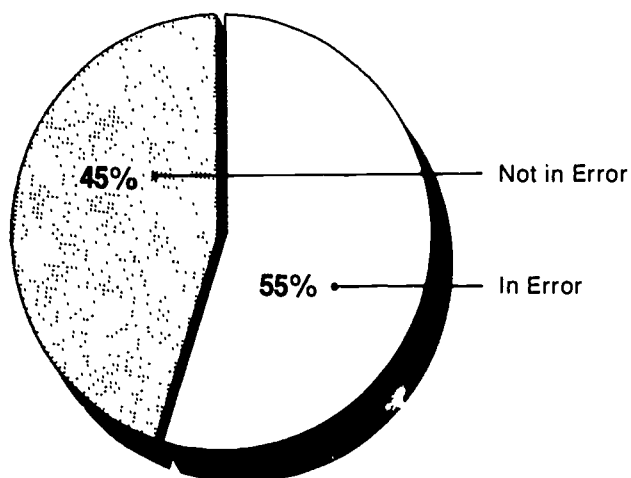
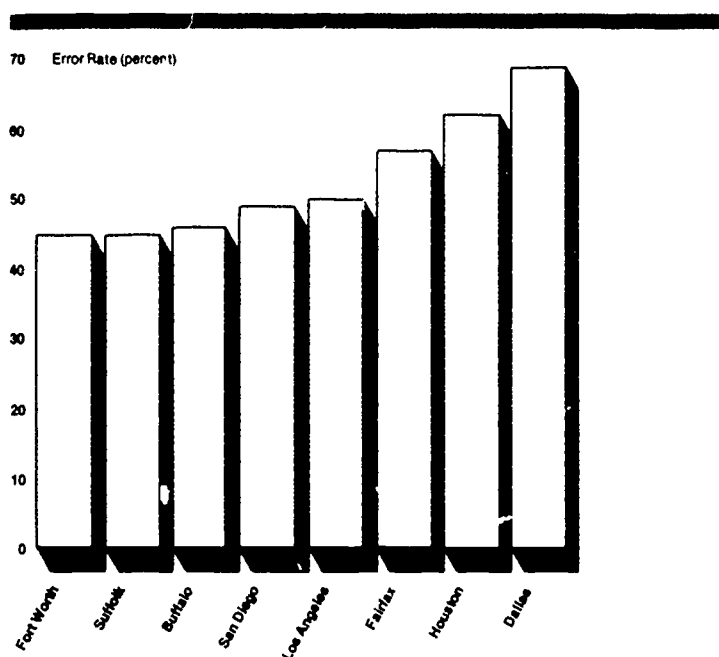


FIGURE 2.4: FOCUSED SAMPLE VERIFICATION RESULTS IN EIGHT SCHOOL DISTRICTS REVIEWED BY GAO

Error Rate By District
(percent)



FOCUSED SAMPLE VERIFICATION RESULTS SHOW
ELIGIBILITY CHANGES TO ONE OF TWO APPLICATIONS

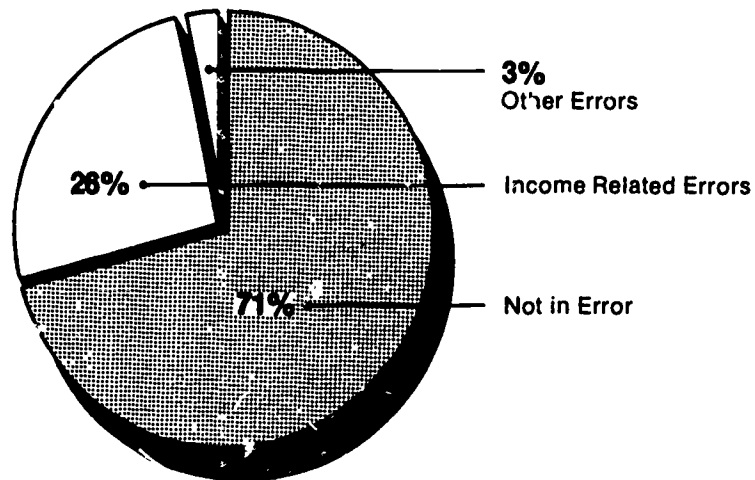
High participation error rates also existed at the school districts we visited that used focused sampling to verify the eligibility of applicants for the 1984-85 school year.² Since focused sampling involves verifying the eligibility of applicants considered to be error-prone because their declared income falls within \$100 of the monthly (\$1,200 of the yearly) eligibility limits for free or reduced-price meals, the error rate on applications verified through focused sampling is expected to be higher than those verified through random sampling. According to a Service-sponsored contractor study,³ error rates for focused samples are expected to yield error rates two to three times higher than those from random samples. Based on our results, it appears that the criteria the Service uses identify those applications most likely to contain errors.

Our validated verification results showed an estimated 55 percent error rate at the eight school districts that used focused sampling; individual district error rates ranged from 45 to 69 percent. (See figs. 2.3 and 2.4.) Although the school districts should have changed the eligibility status for about 55 percent of the applications verified, the actual percentage of applications for which the districts had changed eligibility status--about 52 percent--was somewhat less because of minor problems we found with the school districts' verification procedures. (See sec. 3.)

²See app. V for list of school districts that used focused samples and app. VI for those whose samples provided usable results.

³School Year 1981-82 In-Home Audit Findings, Income Verification Pilot Project, April 1983, Applied Management Sciences, Inc.

FIGURE 2.5: MOST ERRORS CAUSED BY APPLICANTS'
FAILURE TO SUBSTANTIATE DECLARED INCOME



**MOST ERRORS CAUSED BY APPLICANTS' FAILURE
TO SUBSTANTIATE DECLARED INCOME**

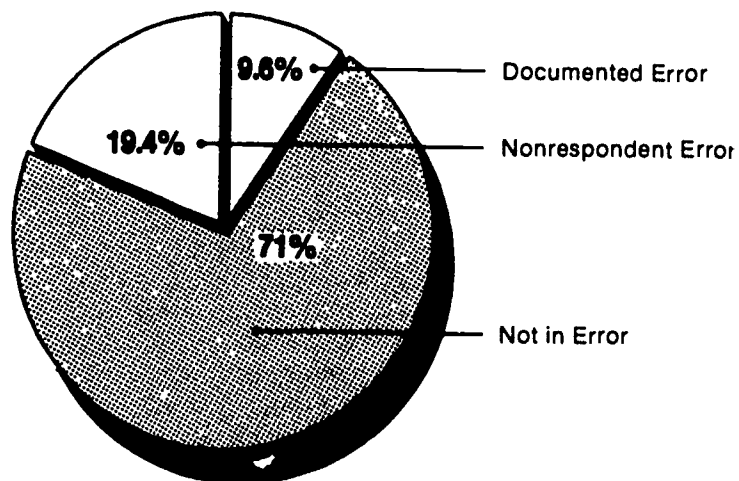
The failure of applicants to substantiate their income was the primary cause for the high error rates in the school districts we reviewed. About 9 of every 10 error cases we reviewed at the eight school districts that had valid random samples were caused by applicants providing documentation that showed actual income above or below the amount declared on the application or applicants not providing adequate documentation to verify declared income. (See fig. 2.5.) Most of the remaining errors were caused by applicants who incorrectly claimed that they were Food Stamp Program participants when applying for free school meals.

From reviewing verification records, we were not able to determine why applicants incorrectly declared their income. However, school district officials attributed the problem to both unintentional mistakes on the part of applicants, such as incorrectly declaring wages or making math errors, and intentional errors, such as underreporting their income. The 1981 USDA OIG study⁴ and the 1983 Service-sponsored contractor study⁵ both cited inaccurate income declarations by applicants as the primary cause of erroneous participation in the school meal programs. The OIG found that more than 90 percent of the cases it identified as receiving improper benefits were caused by inaccurate income reporting by the household. The Service contractor found that 84 percent of households receiving excess benefits had underreported their income by less than \$88 a month.

⁴See footnote 1, sec. 1.

⁵See footnote 3, sec. 2.

**FIGURE 2.6: BREAKDOWN OF ERROR RATES BY
APPLICANTS PROVIDING DOCUMENTATION AND
THOSE NOT RESPONDING**

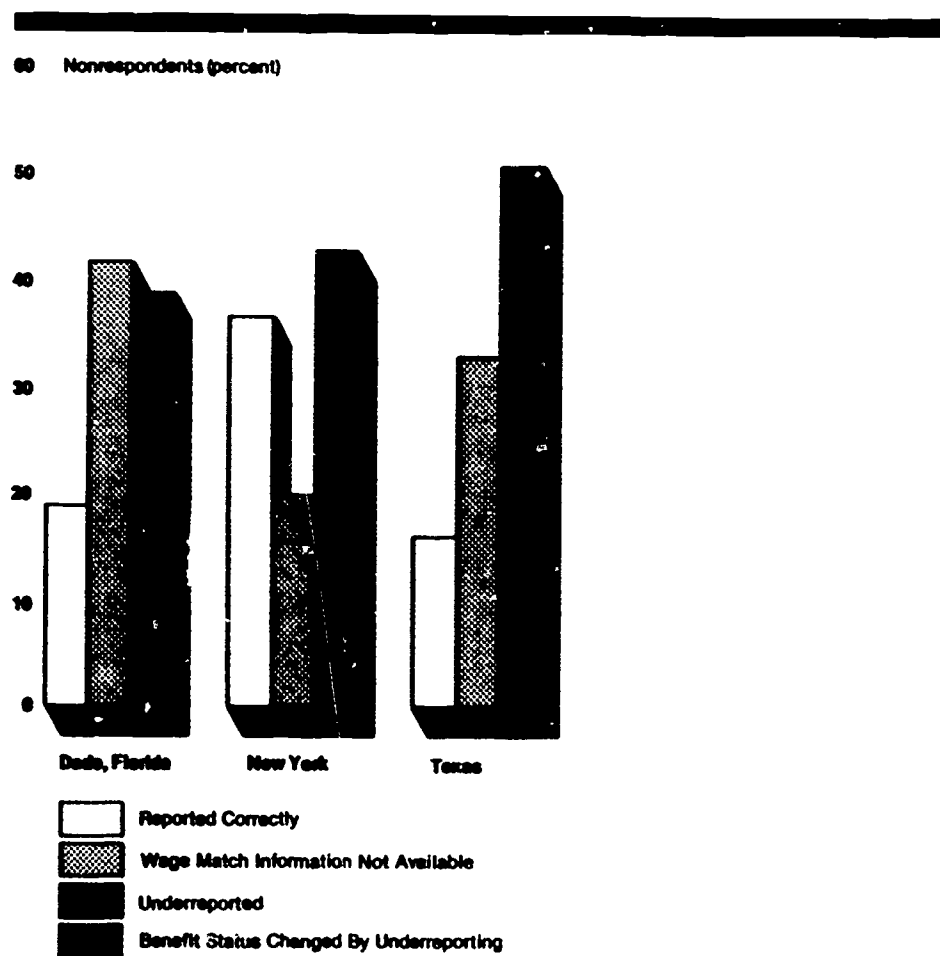


BREAKDOWN OF ERROR RATES BY APPLICANTS
PROVIDING DOCUMENTATION AND THOSE NOT RESPONDING

School food authorities are required, as part of the verification process, to request income information or proof of food stamp participation from applicants selected for verification. If the applicant does not provide appropriate documentation, the school food authority must remove the applicant from the free or reduced-price meal program.

We found an error rate of 29 percent at the eight school districts that had random sampling. (See fig. 2.6.) Of the 29 percent in error, 9.6 percent of the applications (about 33 percent of the eligibility changes) were from applicants who provided documentation that showed actual income above or below the amount declared on the original application. An additional 19.4 percent of applications (about 67 percent of all eligibility changes) should have had an eligibility status change because the applicants failed to respond to the request for documentation. In school districts that used focused sampling, about 28 percent of the applications should have had an eligibility status change based on documentation supplied by applicants and 27 percent because of applicants' failure to respond to the request for documentation.

FIGURE 2.7: WAGE MATCH RESULTS OF NONRESPONDENTS



Note: Wage Match Results for Seven School Districts in New York and Texas: New York City, Roosevelt, Rochester, Buffalo, Dallas, Houston, and Fort Worth.

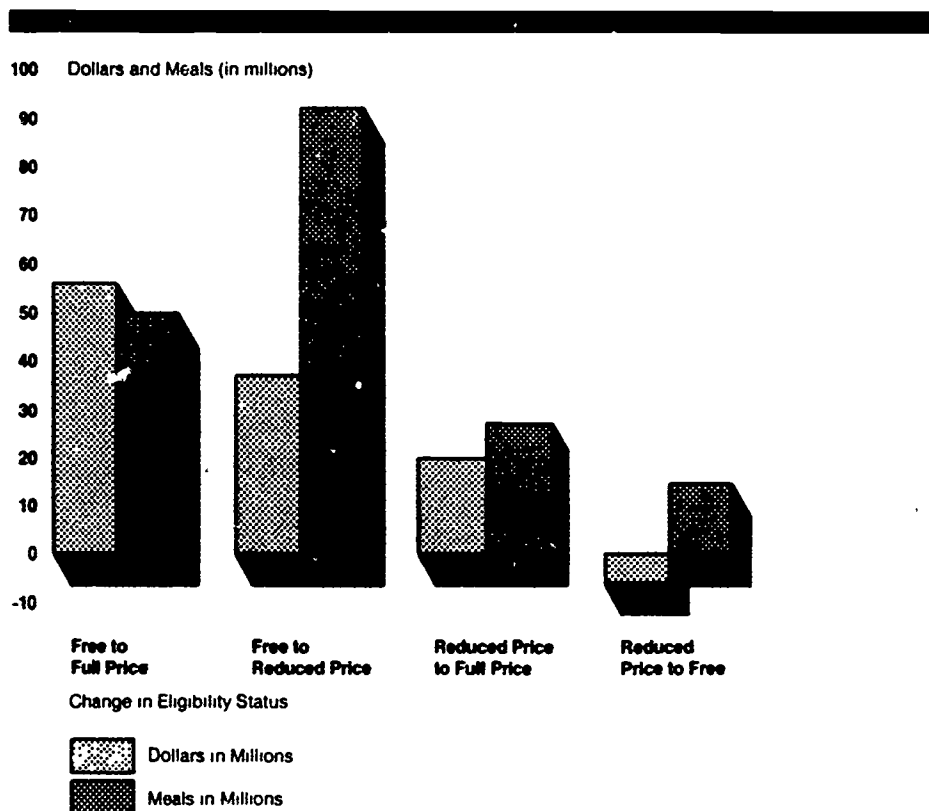
WAGE MATCH RESULTS OF NONRESPONDENTS

School meal program officials at six school districts said they believed that the error rate includes many students who were entitled to the benefits they were receiving. These officials pointed out that two-thirds of the eligibility changes made were because participants did not respond to verification requests for supporting documentation, and they said that they believed these nonrespondents were probably eligible for the approved benefits. According to these school district officials, eligible applicants may not respond to verification requests because they either are confused about the requirements, are unable to obtain the necessary documentation, or believe that this is an invasion of their privacy.

To obtain additional information on nonrespondents, we obtained employer-supplied wage data on nonrespondents from two states--New York and Texas--that were using wage matching for public assistance programs. In addition, we obtained wage match data for nonrespondents in Dade County, Florida, from USDA's OIG. The wage data were compared with the income data contained in applications of households that did not respond to requests for documentation in eight school districts that we reviewed.⁶ As figure 2.7 shows, the wage matches disclosed that 39, 43, and 51 percent of these nonrespondents in Dade County, New York, and Texas, respectively, may have underreported their income. About 50 percent (Dade County), 92 percent (Texas), and 100 percent (New York) of those who may have underreported income may have done so to the extent that household members may have been ineligible for the benefits they received. However, the wage match data also showed that 16, 19, and 37 percent of the applicants in Texas, Dade County, and New York, respectively, who failed to provide documents substantiating their eligibility may have correctly reported their income on the original application. Wage data were not available for the rest (20, 33, and 42 percent in New York, Texas, and Dade County, respectively) of the nonrespondents. However, it should be noted that we did not follow up on the wage match data to determine the applicants' actual income. In addition, the wage match data should be used with caution because five of the districts (Buffalo, Rochester, Dallas, Fort Worth, and Houston) used focused sampling for their verifications. Therefore, we used wage match data only as an indication of earning levels, and we did not attempt to generalize the results of the wage matches to the entire nation.

⁶Dade County, New York City, Roosevelt, Rochester, Buffalo, Dallas, Houston, and Fort Worth.

**FIGURE 2.8: INDICATIONS OF ELIGIBILITY PROBLEMS
NATIONWIDE IN THE SCHOOL LUNCH PROGRAM**



POTENTIAL \$107 MILLION SPENT PROVIDING
SCHOOL LUNCHES THAT STUDENTS MAY
NOT HAVE BEEN ENTITLED TO

As discussed earlier in the section, the eight school districts that used valid random samples had an error rate of 29 percent. Of the 29 percent, 9.6 percent represented applications from students who provided documents showing that they were ineligible (4.0 percent), eligible but for a reduced benefit (4.8 percent), or eligible but for an increased benefit (0.8 percent). The remaining 19.4 percent represented applications from students who did not submit required documentation to substantiate their eligibility. The percentage of these nonrespondents actually in error is unknown, but USDA regulations require termination of benefits to any student who does not respond to a school's request for documentation. Therefore, at the locations where we validated error rates based on valid random samples, a minimum of 9.6 percent and a maximum of 29 percent of all students in the School Lunch Program⁷ may have received benefits other than those they were entitled to. Although these locations do not comprise a statistically valid sample of school districts nationwide, by making a few assumptions, the data can be used to (1) offer an indication of the national number of students who may have received free or reduced-price lunches they were not entitled to as well as the number of students who may have qualified for free lunches but instead were required to pay a reduced price and (2) gauge the dollar implications of this problem nationwide.

We assumed that the eight school districts with usable random samples are typical of all districts and that the error rates are characteristic of the rates nationwide. (See app. IV for a discussion of the assumptions we used and their bases and limitations.) On the basis of the 9.6 percent documented error rate, we calculated that schools nationwide may have served about 170 million free and reduced-price school lunches during the 1984-85 school year to about 1 million students who were not entitled to these benefits. In addition, schools nationwide may have charged 90,000 students reduced prices for about 15 million lunches that should have been provided free. If so, the net cost to the federal government of these errors could have been about \$107 million (about 4 percent of total program costs). If the 19.4 percent who did not submit required documentation were included and if none of these nonrespondents were eligible for free or reduced-price lunches, the net impact could be much

⁷The analyses in this section will be limited to the School Lunch Program because sufficient data were not available at the school districts we reviewed to make such a calculation for the School Breakfast Program.

higher--\$500 million (about 17 percent of total program costs). However, this \$500 million figure would be an upper bound because it assumes that all nonrespondents were entitled only to full-price lunches. (See the preceding discussion of wage-match results for nonrespondents.)

Although our analysis is limited to the School Lunch Program, a similar situation, although of a significantly lesser dollar impact, could exist in the School Breakfast Program because both programs have the same income eligibility criteria, documentation requirements, and verification procedures.

SECTION 3

SCHOOL DISTRICTS GENERALLY COMPLIED WITH VERIFICATION REQUIREMENTS, BUT ONLY SMALL NUMBER OF INELIGIBLE STUDENTS WERE IDENTIFIED

During the 1984-85 school year, the 24 school districts we reviewed generally adhered to the verification regulations and procedures by verifying the required number of applications, fulfilling the documentation requirements, and making accurate verification determinations. However, most errors remain undetected and uncorrected because USDA regulations require eligibility information to be verified for only a small sample of applications. Because none of the eight school districts that used random sampling expanded their verifications to any significant degree beyond the 3 percent minimum required sample, the districts did not identify about 33 error cases for each error case identified. As a result, the verification efforts of those eight school districts identified error cases amounting to only about \$40,000 out of a projected \$1.4 million in annual benefits provided to students who may have been ineligible for these benefits. In addition, the districts identified only about \$2,000 of the \$75,000 in benefits which were not provided to students eligible for higher benefits. We identified eight other school districts that used additional techniques to ensure participant eligibility, such as requesting all applicants to submit income documentation at the time of application. Officials at these school districts said such documentation had positive effects in assuring applicant eligibility but could be a burden to applicants and schools.

**SCHOOL DISTRICTS GENERALLY
CONDUCTED VERIFICATIONS PROPERLY**

o For the most part,

- verification sample sizes were sufficient**
- documentation requirements were fulfilled**
- verifications were accurately determined**

SCHOOL DISTRICTS GENERALLY
CONDUCTED VERIFICATIONS PROPERLY

The 24 school districts we reviewed generally conducted the verification process properly for applications verified for the 1984-85 school year. Our review showed that the districts, for the most part, verified the required number of applications, fulfilled the documentation requirements, and made accurate verification determinations.

Of the 24 school districts, 1 verified less than the minimum number of applications required by Service regulations. This was Dade County, which did not verify the required 3 percent or 3,000 application minimum. Dade County selected 3,000 applications for review; however, some of these applications were from households no longer participating in the program and replacement applications were not selected. In addition, although Broward County verified 1,313 applications, we were unable to determine its minimum sample requirement because it did not have data available on the total number of approved applications. Of the other 22 districts, 2 had verified the minimum number of applications required and 20 had verified more than the minimum--although in many cases, only slightly more.

Six of the 14 school districts using random sampling made minor procedural errors in taking their samples which would not have affected their verification determinations or results, but which did preclude us from using their verification results when projecting the overall error rate and/or in calculating the indication of the potential impact of improper participation nationwide. (See sec. 2.) The 10 districts using focused sampling verified a number of applications equal to or greater than the 1 percent minimum from non-food-stamp applications and 1/2 percent minimum from food stamp applications. (App. V contains a list of sample requirements and verifications conducted for each school district we reviewed.)

On the basis of the information we reviewed in applicant case files, we believe that the school districts generally made accurate verification determinations. However, five districts did not properly obtain, use, or retain the documentation needed to verify applicants' eligibility status. Dade County, Hamilton, and San Francisco did not properly obtain and use documentation on 10 percent or more of the applications verified, but this shortcoming did not significantly affect the overall results of the verifications. New York City and Rochester said they did not retain the documentation once the verifications were complete. As a result, we could not validate the verification results for these two school districts. Also, we validated, but did not include, the verification results for Hillsborough County because it had required documentation with

applications in the previous (1983-84) school year which had an effect on applications and error rates for the 1984-85 school year.

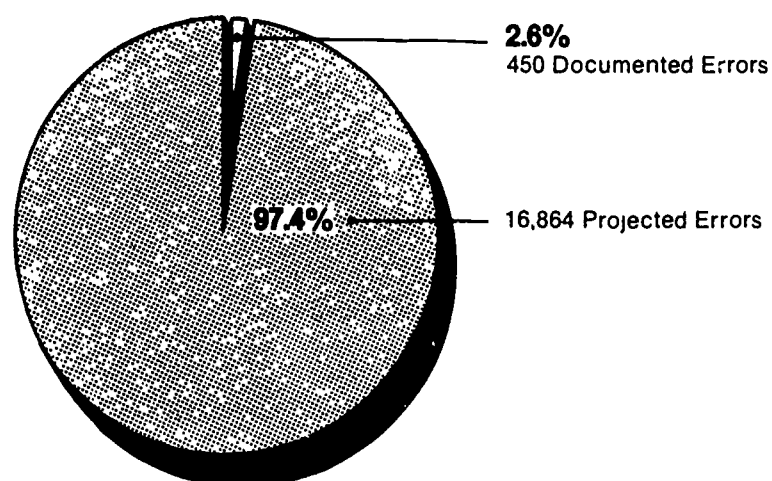
As shown below, the validated error rates of 21 of the 24 school districts--13 that used random sampling and 8 that used focused sampling--overall closely matched those determined by the school districts.

Table 3.1: Comparison of Error Rates Determined by School Districts and Validated by GAO

	<u>Average error rate</u>	
	<u>Schools using random sample</u>	<u>Schools using focused sample</u>
	(percent)	(percent)
School district determination	27	52
GAO validation	29	55

Two school districts had error rates that differed by more than 10 percent from our validated rate. The Broward County school district found a 20 percent error rate compared with the 54 percent we validated because it did not include applicants who did not respond to requests for documentation. In addition, the Hamilton school district had determined an error rate of 22 percent compared with the 53 percent we validated. We were unable to determine the reason for the difference. (App. VI contains a complete list of error rate determinations by each school district and our validated results.)

**FIGURE 3.1: VERIFICATIONS IDENTIFIED LESS THAN
3 PERCENT OF PROJECTED ERRORS AT EIGHT SCHOOL
DISTRICTS USING RANDOM SAMPLING**



RANDOM SAMPLE VERIFICATIONS
IDENTIFIED LESS THAN 3 PERCENT
OF PROJECTED ERRORS

As pointed out in section 1, USDA regulations require school districts that use random samples to verify the lesser of 3,000 or 3 percent of the applications for free or reduced-price meals and allow school districts that focus their efforts on error-prone applications to make fewer verifications. Because none of the school districts that used valid random sampling had expanded their verifications to any significant degree beyond the minimum 3 percent required sample, the school districts did not identify about 33 error cases for each error case identified. (For details on the number of applications verified by each school district, see app. V.)

To illustrate the limited scope of the current verification process, we projected the number of error cases not identified and the resultant dollars lost at the eight school districts that used valid random sampling.¹ By using the 9.6 percent error rate, which was the validated rate of applications which were provided to school districts with documentation that showed applicants had not received the appropriate level of benefits, we project that the verification process used at the eight school districts identified 450 (2.6 percent) of the estimated 17,314 applications where students were receiving school meal benefits other than those they were entitled to. Consequently, the verification process at these eight school districts identified only about \$40,000 of the projected \$1.4 million of benefits provided to students who were not entitled to them. In addition, these schools identified only about \$2,000 of the projected \$75,000 in benefits which were not provided to students eligible for higher benefits. (These projections do not include the 19.4 percent nonrespondent error rate.)

School meal program officials at six school districts said that they did not verify additional cases because they did not consider their rate of erroneous participation to be high. Other school meal program officials said that they would not verify more than the minimum number because the school district would have to bear all the additional costs while all the savings would go to the federal government.

Food and Nutrition Service officials said that their verification regulations require a small sample size because,

¹As discussed in sec. 1, 10 of the 24 school districts we reviewed focused their samples on error-prone applications, and 6 of the random sampling school districts did not follow statistical sampling procedures, thereby precluding projections to the caseload.

like the Internal Revenue Service, they rely on a deterrent effect to discourage applicants from underreporting their incomes.

**ADDITIONAL TECHNIQUES USED TO ENSURE
PARTICIPANT ELIGIBILITY**

- o Eight school districts that required applicants to submit income documentation with applications experienced
 - significant reductions in participation and
 - increased workloads and cost

ADDITIONAL TECHNIQUES USED
TO ENSURE PARTICIPANT ELIGIBILITY

We identified eight school districts² that requested all applicants to submit income documentation at the time of application during the 1983-84 or 1984-85 school years. One of these districts, Hillsborough County, Florida, was also included in the 24 school districts selected for our review. Officials at the eight school districts told us that they did not have any serious problems in obtaining and using income documentation and generally believed such documentation had positive effects on assuring applicant eligibility.

The school districts experienced significant reductions in free and reduced-price meal participation when they first requested applicants to document their eligibility for these benefits. The reduction in participation ranged from 13 percent (Hillsborough) to 24 percent (Palm Beach), with an average reduction of 17 percent.³ Officials at the school districts attributed the declines primarily to reductions in erroneous participation, but there were few data to substantiate claims that the reductions were due to preventing participation by ineligible applicants. However, data from Hillsborough indicate that documentation requirements may have reduced program errors. Hillsborough experienced a 13 percent reduction in participation when it first required documentation for the 1983-84 school year. When Hillsborough dropped its documentation requirement in the 1984-85 school year, it experienced a 6 percent increase in program participation accompanied by a 5 percent error rate. It is impossible to determine whether requiring participants to document their eligibility for benefits would have eliminated these errors.

Although officials at most of the eight school districts said that verification of applicant eligibility would be strengthened by requiring upfront documentation, they also stated that requiring all applicants to submit income documentation could be a barrier that prevents some potentially eligible households from applying because of their inability or unwillingness to submit the income documentation. For example, school district officials said that they knew of some applicants who, due to language or reading problems, had difficulty

²Austin and Lubbock, Texas; Brevard County, Hillsborough County, Palm Beach County, Seminole County, and Volusia County, Florida; Clark County, Nevada.

³Excludes Clark County, Nevada, because data were not available to show participation before and after the documentation requirement was implemented.

understanding the income documentation requirement. According to these officials, other applicants, such as self-employed individuals or those who had varying monthly income amounts, had trouble obtaining income documentation.

This issue of whether upfront documentation is a barrier to potentially eligible households applying for free or reduced-price meals was addressed in the Service-sponsored pilot study on verification and income documentation.⁴ The study said that an estimated 7 percent of current participants who were eligible would not apply if documentation were required, because of the barrier effect. Although requiring income documentation with the application could have a barrier effect on some applicants, we could not determine the validity of the 7 percent estimate contained in this study. However, a contractor employee who was responsible for the study told us that the study was not designed to measure a barrier effect. In addition, we found that sufficient data were not collected to make a statistically accurate estimate of the barrier effect. Service headquarters officials told us that they recognized that the extent of a barrier effect from requiring documentation is not known and that the agency is about to begin a nationwide study to address the barrier effect and related issues.

Another concern raised by school district officials was that requiring income documentation could result in additional costs to the school districts, increase their workload, and hinder timely approval of applications. School district officials told us that requiring proof of eligibility from every applicant would place a financial burden on the schools. Although the officials of the eight school districts that required documentation from all applicants were unable to supply actual additional cost figures, they cited three factors affecting the costs of using income documentation. First, the salaries of staff performing the eligibility determinations, who ordinarily had other work, would be a factor. This ranged from clerical workers to school principals and district officials. Second, most of the school districts had to hire temporary help to handle the volume of work created by obtaining income documentation from all applicants. Third, the school districts had to absorb both the entire cost of obtaining and using the documentation and received lower federal reimbursement resulting from reducing benefits to ineligible participants. Thus, the school districts were simultaneously increasing their expenses and decreasing their revenues.

⁴Income Verification Pilot Project, Phase II, Results of Quality Assurance Evaluations, 1982-83 School Year, Apr. 1984, Applied Management Sciences, Inc.

SECTION 4

OPTIONS THAT COULD REDUCE ERRONEOUS PARTICIPATION IN THE SCHOOL MEAL PROGRAMS

We identified four options that could strengthen the procedures for ensuring applicants' eligibility. Each option has trade-offs to the federal government, schools, and applicants involving the extent and timeliness of the action, administrative requirements, and potential barriers to participation. The options could reduce the participant error rate in the meal programs, thereby resulting in savings to the federal government; however, they also could produce higher administrative costs for the school food authorities, place an administrative burden on some additional applicants, or present a barrier to potential applicants.

OPTIONS THAT COULD REDUCE ERRONEOUS PARTICIPATION

- o Require documentation with all applications**
- o Require income documentation with applications of those not also participating in the Food Stamp Program**
- o Expand verification efforts at school districts with high error rates**
- o Strengthen verification procedures by using wage matching**

OPTIONS THAT COULD REDUCE ERRONEOUS PARTICIPATION

From the information we obtained during our review and the discussions we had with numerous school district officials, we identified four options that could be used to reduce erroneous participation in the school meal programs. These options are (1) requiring documentation with all (food stamp and non-food-stamp) applications, (2) requiring income documentation with non-food-stamp applications only, (3) expanding verification efforts at school districts with high error rates, and (4) strengthening verification procedures by using wage matching.

Each of these options has inherent advantages and disadvantages that should be considered and perhaps even further studied before deciding on an option's appropriateness for the meal programs. Because we were able to identify particular advantages and disadvantages but not always able to obtain data that would enable us to quantify their magnitude or impact, we are unable to conclude which option or options would be the most cost-effective. However, using the best data and information available and making certain assumptions for factors for which we had few or no data, the rest of this section analyzes the advantages and disadvantages of each option.

**FACTORS TO CONSIDER IN ASSESSING DOCUMENTATION
AND VERIFICATION OPTIONS**

- o Extent and timeliness of eligibility verification action
- o Costs and administrative requirements for school districts
- o Burden on program applicants or barriers to potential applicants

FACTORS TO CONSIDER IN ASSESSING
DOCUMENTATION AND VERIFICATION OPTIONS

In judging the relative advantages and disadvantages of each option, at least three basic factors should be considered:

1. How effective will the option be at detecting and preventing errors in a timely manner and how much program savings will result?
2. What will be the cost and administrative burden for the school districts that implement the option?
3. To what extent will the option place an administrative burden on applicants or pose a barrier that inhibits otherwise eligible households from applying for free or reduced-price school meals?

Extent and timeliness of eligibility verification
action--Substantial benefit savings can be achieved only if the school meal programs adopt a documentation or verification requirement procedure that identifies the bulk of applicants receiving benefits to which they are not entitled and corrects these errors as early as possible in the school year. Our review and previous studies have shown that most errors are concentrated in certain groups of applicants--those who do not participate in the Food Stamp Program and those with family income levels close to the eligibility limits for the school meal programs. However, identifying these error-prone applicants can take time and may mean that although documentation and verification efforts are being carried out efficiently, benefit savings are not realized for the entire school year.

Costs and administrative requirements to school districts--
As noted in section 1, the federal government provides a subsidy to school districts based on the number of meals served. However, it does not specifically reimburse schools for any costs incurred when determining whether applicants are entitled to the meals their children are receiving. In fact, federal meal subsidies to the school district are reduced for every student terminated from free or reduced-price eligibility. As a result, schools do not have financial incentives to aggressively document and verify applicants' eligibility for school meal benefits. Therefore, any documentation or verification option should be designed so as to minimize schools' costs and administrative burden. Also, consideration may need to be given to providing some type of financial incentives, such as reimbursing schools for all or some of the administrative costs associated with these requirements.

Barriers to participation and burden on applicants--Studies of the school meal and other income security programs have shown that persons eligible for benefits sometimes will not apply for benefits if they find it is too difficult to prove eligibility. Potential barriers to participation include

- being intimidated by the eligibility and documentation requirements,
- being unable to provide required documents, and
- failing to understand or misunderstanding the eligibility criteria and documentation requirements.

In addition, applicants who are requested to provide documentation may have difficulty obtaining the requested documentation or have privacy concerns about the documentation being requested. In a March 1985 report¹ on our review of privacy concerns relative to the use of various eligibility verification techniques in federal benefit programs, we reported that balancing the competing goals of improving eligibility verification needs and protecting individual privacy is both difficult and controversial.

Although the federal government should ensure that schools do not provide students with meals they are not entitled to, it is important that in determining applicant eligibility, school districts should not be required to establish procedures that may prevent needy households from applying for the benefits they may deserve and need.

¹Eligibility Verification and Privacy in Federal Benefit Programs: A Delicate Balance (GAO/HRD-85-22, Mar. 1, 1985).

**OPTION 1: REQUIRE DOCUMENTATION WITH ALL (FOOD
STAMP AND NON-FOOD-STAMP) APPLICATIONS**

- o A strategy to prevent errors in all applications at the start of a school year
- o School districts would require documentation from all applicants
- o All applicants would be subject to potential barrier effect

OPTION 1: REQUIRE DOCUMENTATION
WITH FOOD STAMP AND NON-FOOD-
STAMP APPLICATIONS

Of the options we analyzed, the most effective in preventing errors in eligibility determinations would be to require all applicants to submit documentation substantiating the household's total income or its participation in the Food Stamp Program. Under this procedure, the school food authority would (1) include information on the application notifying applicants that they must submit supporting documentation with their applications, (2) review all applications to ensure that adequate documentation was submitted, (3) if necessary, notify applicants of additional data needed, and (4) determine eligibility based on the documentation provided. This process could be costly and time-consuming to school districts, particularly if applicants do not submit all the necessary documentation initially with the application. Without the documentation, school districts would have to grant temporary eligibility, notify the applicant of the data needed and the time allowed before eligibility is canceled, and track the case until documentation is submitted or the time period lapses.

This procedure was examined in the Service-sponsored pilot study² that surveyed 17 school districts that agreed to require documentation from their applicants for the 1982-83 school year. The study showed that requiring documentation with the application produced the lowest incidence of erroneous participation; however, the procedure produced the highest total administrative costs. Using cost estimates provided by participating schools, the study showed an average cost to the school of \$7.25 per application to use documentation to verify the accuracy of application data. The study also estimated that for each application for which an error is detected and prevented at the start of the school year, the federal government annually saved \$160.³ Using these data, we estimate

²See footnote 4, sec. 3.

³The pilot study reported an average annual savings of \$88.31 for every eligibility error detected. However, the figure assumes that eligibility errors for each school year are not corrected until January 1. If errors were prevented at the start of the school year, the per application savings could be about \$160 a year. The Service's estimate is consistent with the results of our review which showed a possible average annual savings from detecting errors at the start of the school year that could range from about \$175 to \$269 per application. See footnote 4, sec. 3.

that this procedure would become cost-effective if it reduced erroneous participation by an amount equal to 4.5 percent or more of total participation.

Our review of verification results at the eight school districts using valid random sampling during the 1984-85 school year indicated a 9.6 percent error rate for all applications, based on documentation supplied by the households. The bulk of these errors would have required reductions in benefits. In addition, changes on another 19.4 percent were needed because the households did not supply documentation to prove their eligibility. The actual error rate would depend upon the extent of ineligibility for these nonrespondents.

Although requiring documentation with all applications provides apparent benefits, this option could pose a potential barrier to participation. School district officials are concerned that some otherwise eligible households may not apply for program benefits because they may not be able to provide the necessary documentation. Our limited matching of wage data on those who did not respond to documentation requests indicates that some otherwise eligible applicants may have been unable or unwilling to supply documentation. As discussed in section 2, almost one in five school meal participants did not respond to the schools' requests that they document their eligibility for benefits. Wage matches we conducted showed that some of these nonrespondents may have correctly stated their income on their original applications.

To determine the feasibility of this option, the following questions should be considered and/or studied:

- What are the costs to the schools of obtaining documentation from all applicants at the time of application?
- Would obtaining documentation at the time of application produce a reduction in erroneous participation that would warrant the costs involved?
- Can or should USDA devise a procedure to reimburse school districts some or all of the costs they would incur when carrying out this option?
- Would the requirement for documentation result in a significant number of otherwise eligible households not participating in the school meal programs?

**OPTION 2: REQUIRE INCOME DOCUMENTATION WITH
NON-FOOD-STAMP APPLICATIONS ONLY**

- o A strategy to prevent at the start of the school year those errors made by error-prone applicants
- o School districts would require documentation from about half of all applicants
- o Non-food-stamp households would be subject to potential barrier effect

OPTION 2: REQUIRE INCOME DOCUMENTATION
WITH NON-FOOD-STAMP APPLICATIONS ONLY

As shown in section 2, 90 percent of all school meal program errors may be attributed to households that do not also participate in the Food Stamp Program. Therefore, requiring income documentation from applicants who do not receive food stamps could help prevent about 90 percent of the erroneous participation in the school meal programs--even though USDA studies have shown that these applicants account for only about 55 percent of the students eating free or reduced-price meals. The same procedures would be used as discussed under the option for requiring documentation on all applications, except that applicants receiving food stamps would be exempt.

This option would generally have the same advantages and disadvantages as requiring documentation with all applications, but the relative impact would change. The cost to school districts for processing each application would be the same; however, the total cost would be less because documentation would be required only for a little over half the applicants. Because it might eliminate 90 percent of the erroneous participation (the remaining 10 percent would be from food stamp recipient applicants), this option could be more cost-effective than requiring documentation with all applications. Using a cost per application of about \$7.25 and an average savings of \$160 for each application for which an error is prevented (see preceding discussion), the process would be cost-effective if it reduced erroneous participation by an amount equal to 2.8 percent or more of the total participation.

This option would create a potential barrier to fewer otherwise eligible households because fewer applicants would be required to supply documentation. Nevertheless, because it could present a barrier to participation for a large number of otherwise eligible applicants and because of its potential advantages and disadvantages, the questions raised at the end of the discussion of the prior option should also be considered and/or studied for this option.

**OPTION 3: EXPAND ELIGIBILITY VERIFICATION EFFORTS
AT SCHOOL DISTRICTS WITH HIGH ERROR RATES**

- o Addresses errors at school districts with excessive error rates but covers only a portion of the school year
- o School districts with excessive error rates would verify additional applications
- o For schools with excessive error rates, additional applicants would be required to obtain and provide appropriate documentation

OPTION 3: EXPAND ELIGIBILITY VERIFICATION EFFORTS AT SCHOOL DISTRICTS WITH HIGH ERROR RATES

Expanding verifications at school districts with high error rates is an option that could help remove additional erroneous participants from the program, while avoiding any additional costs for school districts that have low error rates. Under this option, school districts whose normal verification procedures produce error rates above a certain threshold would be required to perform additional verifications.

This option would not affect school districts whose incidence of erroneous participation is low, but it would provide a means of identifying and correcting improper participation at those school districts where it would be most advantageous to do so. However, such a procedure poses two major concerns--the cost of conducting the verifications and the timeliness of the corrective actions. On a per application basis, it should be more expensive to verify eligibility after an application has been submitted than to request documentation at the time of application. Although we have no data to make a precise estimate, the Service's pilot study⁴ calculated that it costs schools \$25.86 per application to acquire and use documentation after the initial eligibility determination. School officials told us their opinion of costs, and these varied greatly among school districts. For example, at about half the districts we reviewed, officials told us that verification efforts cost about \$15 or less per application, but some districts reported costs amounting to \$60 or more per application. We did not verify any of these reported estimates.

Because the initial verification is not completed until the school year is about half complete, any additional verification efforts would not be complete until near the end of the school year. This would severely limit the savings that might accrue from correcting any erroneous participation. A possible option would be to expand the verification sample size in subsequent years, but this still would not provide for a timely reduction of erroneous participation for the school year in which the high erroneous participation originally existed.

Before school districts could be expected to expand verification efforts to reduce erroneous participation, criteria would need to be established on when and how much the verification efforts should be expanded. These criteria would be difficult to establish because the costs could vary greatly among school districts, and school districts would have an incentive to report low error rates to avoid being required to expand their verification.

⁴See footnote 4, sec. 3.

This option would impose an additional burden on those applicants who were included in the expanded verification sample. The overall burden would depend on the size and timing of the subsequent sample, with the number of nonrespondents most likely growing with a larger and later sample.

The following questions should be considered and/or studied to evaluate this option:

- What should the criteria be for requiring a district to expand verification and can they be realistically determined?
- To what extent should the verification requirement be expanded and how should that amount be determined?
- If this option were adopted, would school districts report verification results that accurately reflect the true incidence of erroneous participation and is it cost-effective for the Service to verify the accuracy of these error rates?
- What should be the timing of this option? Would it be more cost-effective to expand verification efforts in the same school year or wait until a subsequent year?
- Is it more or less cost-effective to conduct subsequent verification efforts or to expand the verification procedure up front?
- How might the extent and timing of the expanded verification effort affect applicants?

**OPTION 4: STRENGTHEN ELIGIBILITY VERIFICATION
PROCEDURES BY USING WAGE MATCHES**

- o Addresses errors caused by underreported income, but covers only a portion of the school year
- o School districts would require documentation from participants identified as having underreported income
- o Participants identified as having underreported income would have the burden of providing additional documentation

OPTION 4: STRENGTHEN ELIGIBILITY
VERIFICATION PROCEDURES BY
USING WAGE MATCHING

Computer matches of income data from third parties have been used successfully in income security programs to improve program integrity by identifying potentially incorrect information provided by applicants and participants. One way to strengthen the verification process by using the wage matching procedure would be to (1) obtain wage and unemployment benefit data from state unemployment compensation agencies for all non-food-stamp applicants, (2) compare these data with the information on the applications, and (3) request supporting documentation from all applicants shown to be underreporting income.

In its pilot study,⁵ the Service reported that wage matching was the most cost-efficient method of identifying erroneous participation and, when wage data confirmed information declared on the application, caused the least burden on participating households. The study estimated that wage matches identified errors on about 12 percent of the applications but no data were available on the cost of such matches. Our wage matching of a limited sample of cases showed that about 10 percent of the applicants who did not respond to schools' verification requests had underreported income. Under this option, documentation supporting eligibility would be required from only those applicants who were identified in the wage match as possibly having underreported income.

Although wage matching can be an efficient verification method, several problems limit its practical use for verifications in the school meal programs. First, wage data on state automated files may not accurately reflect income reported at the time of application because the data from the state are often 6 months old or older before they are available for wage matching. Also, not all employers report wages, and state officials in some states said that they do not have authority to release the data to school authorities. On the wage matches we conducted for sample cases, for example, data were not available for 20 to 42 percent of the cases. In addition, there has been considerable concern in the Congress and among advocacy groups about safeguarding individuals' rights to privacy during the wage matching process. Finally, some school officials were not familiar with wage matching procedures and most school districts and some states do not have automated wage records.

⁵See footnote 4, sec. 3.

To determine the feasibility of using third-party wage matches, the following questions should be considered and/or studied:

- Because wage data generally are not available for 6 months or more, would wage matching result in timely identification of students receiving benefits to which they are not entitled?
- Should the individual school districts or states be responsible for establishing a wage match system for the school meal programs?
- Are states' automated wage data files sufficiently complete to enable an effective wage match procedure for the school meal programs?
- Do school meal program offices have sufficient access to wage data to conduct wage matches and do schools maintain their participation records in a manner that would facilitate making the matches?

MAJORITY MEMBERS
 AUGUSTUS F. HAWKINS, CALIFORNIA
 Chairman
 WILLIAM D. FORD, MICHIGAN
 JOSEPH W. CARDOZO, PENNSYLVANIA
 WILLIAM HALL CLAY, MISSOURI
 MAURO RAGGI, NEW YORK
 AUSTIN J. MURPHY, PENNSYLVANIA
 DALE E. KILDEE, MICHIGAN
 PAT WILLIAMS, MONTANA
 MATTHEW G. MARTINEZ, CALIFORNIA
 MAJOR R. OWENS, NEW YORK
 FREDERICK C. BOUCHER, VIRGINIA
 CHARLES A. HAYES, ILLINOIS
 CARL C. PERKINS, KENTUCKY
 TERRY L. BRUCE, ILLINOIS
 STEPHEN J. SOLARZ, NEW YORK
 MERVYN M. DYMALLY, CALIFORNIA
 DENNIS E. BICKART, OHIO
 TIMOTHY J. PENNY, MINNESOTA
 CHESTER G. ATKINS, MASSACHUSETTS



COMMITTEE ON EDUCATION AND LABOR
 U. S. HOUSE OF REPRESENTATIVES
 2181 RAYBURN HOUSE OFFICE BUILDING
 WASHINGTON, DC 20515

MINORITY MEMBERS
 JAMES M. JEFFORDS, VERMONT
 WILLIAM F. GOODLING, PENNSYLVANIA
 E. THOMAS COLEMAN, MISSOURI
 THOMAS E. PETRI, WISCONSIN
 WALTER ROUNDELL, NEW JERSEY
 STEVE GUNDERSON, WISCONSIN
 STEVE BARTLETT, TEXAS
 ROD CHANDLER, WASHINGTON
 THOMAS J. TALKE, IOWA
 JOHN R. McDERMOTT, JR., MAINE
 RICHARD K. ARNEY, TEXAS
 HARRIS W. FAWELL, ILLINOIS
 PAUL B. HENRY, MICHIGAN

TELEPHONES
 MAJORITY—(202) 225-4827
 MINORITY—(202) 225-3728

June 10, 1985

The Honorable Charles A. Bowsher
 Comptroller General of the United States
 U. S. General Accounting Office
 441 G Street N. W.
 Washington, D. C. 20548

Dear Mr. Bowsher:

Over the past several years, a number of my colleagues on the House Education and Labor Committee and I have been very interested in ways to improve the integrity of the National School Lunch and School Breakfast Programs. We are particularly interested in the concept of documenting and verifying eligibility for school meal benefits. In this regard, we were in the forefront of the effort to develop the current documentation and verification provisions included in the Omnibus Budget Reconciliation Act of 1981. However, I believe the past few years have shown that more could and should be done to document and verify eligibility for school meal benefits.

I was very pleased to learn that GAO has started a study of eligibility documentation and verification requirements and practices in the School Lunch and School Breakfast Programs. I am requesting that this study be made on my behalf, as Ranking Republican on the Subcommittee on the Elementary, Secondary, and Vocational Education. I would be particularly appreciative if, among other things, the study would include consideration of the following issues:

- Has the Department of Agriculture established appropriate regulatory requirements that embody the congressional intent of the school meal eligibility documentation and verification provisions of the Omnibus Budget Reconciliation Act of 1981?
- Do these regulations establish procedures that can effectively identify cases where families have received school meal benefits to which they were not entitled?
- Are states and schools properly implementing USDA's school meal eligibility documentation and verification requirements? How effective are such procedures for detecting cases where

Honorable Charles A. Bowsher

June 10, 1985
2

families have received school meal benefits to which they were not entitled?

--What are the results of the local documentation and verification efforts at various locations?

--What more can the Congress, USDA, States, and schools do to improve the effectiveness of school eligibility documentation and verification? Because I am particularly interested in the concept of "upfront" eligibility documentation, I would appreciate any information you may develop on ways that schools can carry out this procedure more effectively.

I understand that, because of the enormity of the task, GAO cannot review a statistically projectable sample of the more than 16,000 school districts in the nation. However, I would appreciate your visiting school districts of various sizes in different parts of the country to give the Congress as broad a perspective of this topic as practicable. I request that you work with my staff in deciding the number and location of school districts to be reviewed. I also request that my staff be periodically briefed on the status of the review work. In this way, we can best tailor the timing and substance of your review efforts to fit our needs. You may have your staff contact Ms. Mary Jane Fiske (226-3113) to arrange briefings and to coordinate your work with the Subcommittee's needs.

I am hopeful that you can help us improve the integrity of the School Lunch and School Breakfast Programs and thereby forestall any injurious cuts to program benefits. I look forward to receiving the results of your efforts.

Sincerely,



BILL GOODLING
Member of Congress

STATES, FOOD AND NUTRITION SERVICEREGIONS, AND SCHOOL DISTRICTS SELECTED FOR REVIEW

California (Western Region)

Folsom-Cordova Unified School District
Los Angeles Unified School District
San Diego Unified School District
San Francisco Unified School District

Florida (Southeast Region)

Broward County School District
Dade County Public Schools
Hillsborough County Public Schools
Taylor County School District

New York (Northeast Region)

Buffalo Public Schools
New York City School District
Rochester City School District
Roosevelt Union Free School District

Ohio (Mid-Western Region)

Cincinnati Public Schools
Cleveland Public Schools
Columbus Public Schools
Hamilton City School District

Texas (Southwest Region)

Dallas Independent School District
Denton Independent School District
Fort Worth Independent School District
Houston Independent School District

Virginia (Mid-Atlantic Region)

Fairfax County Public Schools
Norfolk Public Schools
Suffolk Public Schools
Virginia Beach City Public Schools

SCHOOL DISTRICTS USING ADDITIONAL
TECHNIQUES TO ENSURE APPLICANTS' ELIGIBILITY

Austin Independent School District, Austin, Texas

Brevard County School District, Cocoa, Florida

Clark County School District, Las Vegas, Nevada

Hillsborough County Public Schools, Tampa, Florida¹

Lubbock Independent School District, Lubbock, Texas

Palm Beach County School District, West Palm Beach, Florida

Seminole County School District, Sanford, Florida

Volusia County School District, Deland, Florida

¹Hillsborough County was also one of the 24 school districts selected for detailed review.

METHODOLOGY FOR CALCULATING INDICATION OF SCHOOL LUNCH
PROGRAM DOLLARS ISSUED IN ERROR NATIONWIDE DURING
THE 1984-85 SCHOOL YEAR

Application error rate validated
by GAO at eight school districts

	<u>Documented</u> <u>errors</u>	<u>Non-</u> <u>responses</u>	<u>Total</u>
	------(percent)-----		
Free lunches given to those entitled only to full-price lunches	2.6	15.8	18.4
Free lunches given to those entitled only to reduced-price lunches	4.8	0.0	4.8
Reduced-price lunches given to those entitled only to full-price lunches	1.4	3.6	5.0
Reduced-price lunches given to those entitled to free lunches	<u>0.8</u>	<u>0.0</u>	<u>0.8</u>
Total percentage in error	<u>9.6</u>	<u>19.4</u>	<u>29.0</u>

National participation and cost data
compiled by USDA Food and Nutrition Service

<u>Type of lunch</u>	<u>Number</u> <u>of meals</u>	<u>Federal</u> <u>subsidy/meal</u>
	(millions)	(dollars)
Free	1,656.9	\$1.255
Reduced price	254.3	0.855
Full price	1,977.8	0.120

Calculation method

T = Total school lunch dollars issued in error

F_C = Federal cost of a free school lunch

R_C = Federal cost of a reduced-price school lunch

P_C = Federal cost of a full-price (paid) school lunch

L = Number of free and reduced-price school lunches served nationally

F_P = Free lunches served to those entitled only to full-price (paid) lunches as a percentage of free and reduced-price lunches

F_R = Free lunches served to those entitled only to reduced-price lunches as a percentage of free and reduced-price lunches

R_P = Lunches served at a reduced price to those entitled only to full-price (paid) lunches as a percentage of free and reduced-price lunches

R_F = Lunches served at a reduced price to those entitled to free lunches as a percentage of free and reduced-price lunches

$$\begin{aligned}
 T &= (F_C - P_C) \times (F_P \times L) + (F_C - R_C) \times (F_R \times L) + (R_C - P_C) \times (R_P \times L) + (R_C - F_C) \times (R_F \times L) \\
 &= (1.255 - 0.120) \times (.026 \times 1911.2 \times 10^6) + (1.255 - 0.855) \times \\
 &\quad (.048 \times 1911.2 \times 10^6) + (0.855 - 0.120) \times (.014 \times 1911.2 \times 10^6) + \\
 &\quad (0.855 - 1.255) \times (0.008 \times 1911.2 \times 10^6) \\
 &= \underline{\$106.6 \text{ million}}
 \end{aligned}$$

ASSUMPTIONS

We assume that the error rate we validated in the eight school districts that used statistically valid random sampling techniques is characteristic of the error rate in school districts nationwide.

Basis

1. Because of the size of the program, there are no data that indicate the actual level of errors in the School Lunch Program, but during the past 5 years, USDA has developed several estimates of program error rates. These estimated error rates have ranged from 7.9 percent to 30.6 percent. Although our approach, timing, and locations differed from those of the USDA studies, our validated error rates of 9.6 percent (documented) and of 29 percent (including nonrespondents) for the 1984-85 school year fall within this range. For example, USDA's OIG reported a national error rate of 27.5 percent for the 1979-80 school year,

using a methodology that gathered data needed to make eligibility determinations for all but a few nonrespondents. In its pilot study, the Food and Nutrition Service reported an 11.7 percent error rate for the 1981-82 school year using an approach roughly consistent with the methodology we use to derive a 9.6 percent documented error rate. Our calculations of the \$107 million lower bound for school meal dollars issued in error during the 1984-85 school year is based on the more conservative error rate of 9.6 percent, a figure that excludes all applicants who did not respond to the school districts' requests for documentation to support program eligibility.

2. Our calculation is based on eight school districts that represent a cross-section of schools in the United States. The districts are located in six states in different parts of the country--California, Florida, New York, Ohio, Texas, and Virginia. Three of the school districts are large districts located in urban areas and five are smaller districts, many of which are in rural locations. The districts include secondary, intermediate, and elementary schools. Because many factors can cause error rates to vary from one location to another, there is no way of knowing whether the school districts we reviewed are more or less error prone than districts nationwide. (App. VI lists the error rates for the school districts in our review.) Excluding nonrespondents, the error rates we validated at the school districts that verified simple random samples of program participants ranged from 2 percent (Cleveland) to 24 percent (Hamilton).

We assume that the application error rate we validated in eight school districts can be applied to the number of meals served nationwide.

Basis

1. In most of the school districts we reviewed, the error rate we validated represented the percentage of students eating meals they were not entitled to. In the remainder, the error rate represented a household rate. The Service has found a historical relationship between the number of students in the school meal programs and the number of meals the programs serve. Consequently, as we pointed out in our March 1984 report,¹ the Service no longer collects data on the number of students or households served by the

¹Participation in the National School Lunch Program
(GAO/RCED-84-132, March 30, 1984).

school meal programs. Instead, it collects data on the number of meals served and multiplies these data by a constant to derive program participation data. On the basis of the historical relationship between the number of participating students and meals served, the Service found that students overall ate about the same number of school lunches each year regardless of whether they received free, reduced-price, or full-price lunches. There are no data on whether ineligible students tend to eat more meals than students who are entitled to the benefits they are receiving. Also, there are no data on whether students who are found to be receiving benefits to which they are not entitled stay in the program and eat meals at the same rate once the price has been adjusted upward to its proper amount.

2. In its pilot study, the Service noted that (1) it is possible to estimate the number of households in the school meal programs by dividing the number of students by a constant adjustment factor and (2) this constant does not significantly differ for different meal categories. This would make a household error rate equivalent to the percentage of students receiving improper benefits. Using data from the 1982 Current Population Survey, analysts for the President's Task Force on Food Assistance also found this constant relationship between the number of students and households in the school meal programs. No data exist to determine whether ineligible households are likely to have more or fewer children than eligible households.

LIMITATIONS

Our analysis was limited to validating a sample of the applications verified by school districts covered by our review. In addition, the error rates and dollar implications that we report have the following limitations:

1. The error rates we validated provide an indication of the dollar implications of providing school lunches for an entire year to students who are not entitled to these benefits. The dollar amount does not necessarily represent the amount that could be saved by any particular alternative procedure for documenting or verifying eligibility for school meal benefits. Savings would depend on the effectiveness and timing of the documentation or verification procedures.
2. The error rates we validated indicate the level of errors occurring at the time in the 1984-85 school year that school districts carried out their verification procedures. (USDA regulations require verification of

students in the program as of October 31.) In its pilot study, the Service found that the error rate reported at the time of the verification is not very different from the error rate throughout the school year. The Service noted that, if anything, error rates for the first part of the school year may tend to slightly understate the magnitude of the problem because participants often do not report changes in circumstances that could affect eligibility. These changes have an increasing opportunity to take place as the school year progresses.

3. The error rates we validated do not include students who paid full price for school meals. Some of these students may have been entitled to eat their school meals free or at a reduced price. No information exists on these types of errors because USDA regulations require school districts to verify the eligibility of only those students receiving free or reduced-price meals.
4. Our calculation of the national implications of providing school meals to students not entitled to these benefits is limited to the School Lunch Program. Although the error rates we validated also pertain to the School Breakfast Program, detailed data on the number of breakfasts served to ineligible students were not available at some of the locations we reviewed.

NUMBER OF SAMPLE APPLICATIONS REQUIRED
AND VERIFIED, BY SCHOOL DISTRICT

<u>School district</u>	<u>Minimum sample size required</u>	<u>Number verified</u>
Random samples:		
Denton	42	57
Roosevelt	58	58
Taylor	37	61
Folsom-Cordova	78	99
Hamilton	101	102
Virginia Beach	225	300
Norfolk ^a	621	733
Cincinnati	545	739
San Francisco	984	994
Columbus	1,018	1,051
Broward County	^b	1,313
Cleveland	1,656	1,700
Dade County	2,818	1,922 ^c
New York	3,000	3,000
Focused samples:		
Suffolk	48	73
Fairfax County	96	120
Rochester	177	260
Fort Worth	158	192
San Diego	438	454
Buffalo	408	569
Dallas	606	617
Houston	690	1,076
Hillsborough	598	800
Los Angeles	1,500	1,637

^aHigh schools only.

^bThe minimum number of applications required for verification at Broward County could not be computed because the school district did not have data on the total number of approved applications as of October 31, 1984.

^cDade County selected 3,000 applications for verification, but some of the households were no longer participating in the program and replacement applications were not selected.

SCHOOL DISTRICT VERIFICATION RESULTS AND GAO'S VALIDATION

<u>School district</u>	<u>Percent of cases with eligibility changes</u>	
	<u>School district sample results</u>	<u>GAO sample results</u>
Statistical random samples:		
Folsom-Cordova	18	21 + 8
Cleveland	26	21 + 6
Taylor	23	26 + 11
Denton	19	28 + 12
Roosevelt	33	29 + 12
Norfolk ^a	30	33 + 8
Dade County	28	33 + 6
Hamilton	22	53 + 12
Weighted average ^b	27	29 + 4
Nonstatistical random samples:		
Columbus	19	20 + 0
Cincinnati	25	28 + 7
San Francisco	36	35 + 7
Virginia Beach	46	47 + 4
Broward County ^c	20 ^d	54 + 8
Focused samples:		
Fort Worth	49	45 + 8
Suffolk	45	45 + 10
Buffalo	42	46 + 8
San Diego	46	49 + 5
Los Angeles	51	50 + 7
Fairfax County	59	57 + 0
Houston	52	62 + 7
Dallas	66	69 + 9
Weighted average ^e	52	55 + 3

^aHigh schools only.

^bData are weighted using total program participation.

^cBroward County data are not included in the weighted average because the participation data necessary for the calculation were not available.

^dResult excludes changes due to nonresponses.

^eData are weighted using samples' sizes because random samples were not used by school food authorities.

(023248)

☆U.S. GOVERNMENT PRINTING OFFICE: 1986-491-234, 40038

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.